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FOR SENATOR OBAMA FROM AMBASSADOR BOST

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SUBJECT: SCENESETTER FOR SENATOR OBAMA'S VISIT TO SOUTH AFRICA

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[1](#)1. (SBU) Welcome to South Africa, an anchor country in our Africa policy. Since the end of apartheid in 1994, the African National Congress (ANC)-led South African Government (SAG) has made major progress toward establishing a vibrant democracy and market-based economy. The SAG has focused on political and economic transformation: closing the gap between the historically privileged and disadvantaged communities -- primarily through government-provided housing, electricity, and water to the poor -- and creating employment and business opportunities. South Africa continues to face serious challenges, including income inequality between blacks and whites, massive unemployment, entrenched poverty, violent crime, and a severe HIV/AIDS pandemic. Taken together, these problems are intensifying political tensions within the ANC-led ruling coalition. The next ANC president will not be selected until the party's December 2007 congress, but rumor-mongering and behind-the-scenes electioneering for the top job already are in full swing. While the likely victor is unclear, much will depend on the fate of former SAG Deputy President (and still ANC Deputy President) Jacob Zuma. Fired from his national position in June 2005 after his financial advisor was convicted on corruption and fraud charges, Zuma faces similar charges in a trial set to begin September 5.

[1](#)2. (SBU) Despite its challenges, South Africa remains the continent's best prospect for establishing a successful democratic society with widespread prosperity as the SAG moves from political to economic transformation. South Africa plays a key role in promoting peace and stability in Africa, and is an important voice on global trade and nonproliferation issues. U.S.-South African relations are positive, as reflected by President Bush's July 2003 visit to South Africa and President Mbeki's reciprocal June 2005 trip to Washington. We share objectives on the African continent and work together closely on those issues.

POLITICAL OVERVIEW

[1](#)3. (SBU) The African National Congress (ANC) dominates the political scene in South Africa. President Thabo Mbeki began his current five-year term on April 27, 2004. The ANC won 70 percent of the vote and 279 of 400 seats in the National

Assembly at the April 14, 2004 poll. A subsequent "floor crossing" period in September 2005, in which parliamentarians were allowed to switch parties, boosted the ANC's total to 1293. The ANC also won 66 percent of the vote nationally in March 2006 local elections. The Democratic Alliance (DA) is the largest of several small opposition parties in parliament, with 47 seats. The ANC leads the administrations in all nine of South Africa's provinces.

14. (SBU) The ANC is part of a tripartite alliance whose other members are the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). The ANC-led alliance is a broad-based political movement in which schisms have appeared in recent years, largely based on the SACP's and COSATU's opposition to the government's economic, HIV/AIDS, and Zimbabwe policies. However, the alliance is likely to hold together, at least in the short term. Despite their dissatisfaction with many ANC policies, most SACP and COSATU leaders remain intensely loyal to the ruling party and prefer to lobby for change from inside the alliance. They also likely calculate that splitting from the alliance and fielding candidates independently could have catastrophic electoral results.

15. (SBU) President Mbeki remains securely at the ANC's helm, but currently is embroiled in managing internal party tensions related to succession, his centralized decisionmaking, and former Deputy President Zuma's upcoming corruption trial. Mbeki's popularity, affected by continued high levels of crime, unemployment, a delayed response to the HIV/AIDS crisis, and the slow delivery of services to South Africa's majority population, fluctuated throughout his first five-year term. However, a recent poll showed that 77 percent of South Africans approve of the job he is doing, a figure almost identical to that of Nelson Mandela at the same

point in his Presidency. Mbeki's standing within the party has taken a beating during the past year. Supporters of Jacob Zuma accuse Mbeki of conspiring against his party deputy; using charges of rape (on which Zuma was acquitted in May 2006) and corruption to ensure Zuma does not become the next ANC president. Many within the party's grassroots think Mbeki does not listen to or consult with ANC structures before making decisions, such as when he overrode the selection of several hundred local candidates by ANC branches to ensure gender parity on party lists for the March 2006 local elections.

FOREIGN POLICY - FOCUS ON PROMOTING AFRICA

16. (U) South Africa has taken a high-profile role in promoting Africa's development. South Africa served as the first chair of the African Union until July 2003 and helped to establish continental institutions such as the Pan-African Parliament (which sits in South Africa), and the AU Peace and Security Council. President Mbeki is the driving force behind the New Partnership for Africa's Development (NEPAD), an African-developed program to strengthen economic and political governance across the continent and a framework for productive partnership with the international community. South Africa led the negotiations which ended the conflicts in Burundi and the Democratic Republic of the Congo, and it is playing a leading role in the mediation in Cote d'Ivoire.

17. (SBU) South Africa recognizes that, by virtue of its regional political, economic, and military clout, it has a responsibility to participate in peace support operations. Approximately 2,615 troops currently are deployed in UN and AU Missions in Burundi, DRC, Sudan, Cote d'Ivoire, and Ethiopia/Eritrea. While the U.S. has a strong policy interest in seeing South Africa expand and enhance its peace support capabilities, our ability to support these efforts has been limited by the suspension of FMF and IMET (about \$7 million per annum) military assistance because of the lack of an Article 98 agreement with South Africa. One positive development is South Africa's decision to participate in the

African Contingency Operations Training and Assistance program (ACOTA) through which we can work together to enhance the capacity of the South African National Defense Force (SANDF) for robust participation in multilateral peace support operations. The first ACOTA training exercise will take place in late August.

¶8. (SBU) Zimbabwe remains a continuing, and often frustrating, challenge for President Mbeki. While it is clear that South Africa wants political and economic reform in Zimbabwe, its "quiet diplomacy" policy of behind-the-scenes talks has failed to produce results. SAG officials argue that additional pressure, such as sanctions, would have little effect on President Mugabe and could destabilize Zimbabwe (with spillover effects in South Africa). In recent months, South Africa appears increasingly concerned about the deteriorating economic situation in Zimbabwe.

¶9. (SBU) While overall U.S.-South African relations are positive, South Africa sometimes takes positions on global issues that run counter to U.S. interests. For example, South Africa abstained on the IAEA Board of Governor's resolution to refer the dossier on Iran's nuclear program to the UN Security Council. As current chair of the G-77 and former head of the Non-Aligned Movement (NAM), South Africa has taken up the cause of a greater "South" voice in international institutions, increased development assistance, an expanded UN Security Council, and lower trade barriers.

THE ECONOMY AND THE STRUGGLE TO TRANSFORM

¶10. (SBU) As the dominant and most developed economy in sub-Saharan Africa, South Africa is markedly different from other countries of the region. It is a middle income, emerging market economy with GDP per capita of \$5,105 (2005), akin to Chile, Malaysia, or Thailand. The South African government's fiscal and monetary policies are excellent. The ANC government steadily reduced the fiscal deficit from nearly 6 percent of GDP in 1994-95 to a nearly balanced budget in 2005-06. The forecast for the 2006-07 fiscal deficit is 1.5 percent as a result of expansionary policies.

The South African Reserve Bank (SARB) is independent and committed to low inflation. CPIX (CPI minus mortgage cost) inflation has fallen from 12.4 percent at the beginning of 2003 to 4.8 percent (June 2006), within the SARB's official 3 to 6 percent target. Real GDP growth in 2005 climbed to 4.7 percent from 4.5 percent in 2004 as a result of strong consumer spending. Analysts expect growth to slow to 4.2 percent in 2006.

¶11. (SBU) South Africa's single greatest economic challenge is to accelerate growth. Moderate growth since 1994, averaging 3.2 percent a year, has not been sufficient to address widespread unemployment and reduce poverty. The official unemployment rate, currently 26.7 percent, has only recently begun to decline, and is significantly higher among black South Africans than among whites. Income inequality between white and black South Africans remains high. Poverty is widespread. Fifty-six percent of black South Africans, but only four percent of whites, live in poverty. Nevertheless, the government has made strides in the areas of transfer payments and public services to close the gap. Nearly 1.5 million low-cost homes have been built to provide shelter to six million people, four million households provided with electricity, and nine million people connected to clean water. The government's broad-based Black Economic Empowerment (BEE) program provides ownership and employment opportunities to blacks and has helped the black middle class double in size since 1994.

U.S. SUPPORT FOR SOUTH AFRICA

¶12. (U) Since 1994, the United States Government has contributed approximately \$1.217 billion toward South Africa's development, plus \$201 million in credit guarantees. Currently, our development assistance program focuses on HIV/AIDS and strengthening the healthcare system, addressing unemployment through job-skills training and education, creating models for efficient service delivery, and reducing gender-based violence as part of the President's Women's Justice and Empowerment Initiative (WJEI). A wide range of U.S. private foundations and NGOs are also at work in South Africa. Among them are the Gates Foundation (HIV/AIDS), the Ford Foundation (higher education), and the Rockefeller Foundation (adult education).

¶13. (U) Nineteen U.S. agencies, including the FBI, CDC, Customs, and USAID, are represented at our Mission in South Africa: Embassy Pretoria and the three consulates in Durban, Cape Town and Johannesburg. The Mission has 281 U.S. employees, and 564 local employees. More than 40 percent of Mission staff provide regional services to other U.S. embassies in Africa. The Mission has embarked on an ambitious program to build safe office facilities. In FY05 we completed the new Consulate compound in Cape Town, and in FY06 we will award the design/build contract for the new Consulate building in Johannesburg.

U.S.-S.A. TRADE AND INVESTMENT

¶14. (SBU) U.S.-South Africa trade grew 7 percent in 2006, totaling \$9.5 billion. U.S. exports were up 22 percent at \$3.6 billion, while South African exports to the United States declined 1 percent at \$5.8 billion. In 2005, South Africa was the 35th largest trading partner of the United States, equivalent to Turkey or Chile. It is the largest U.S. export market in sub-Saharan Africa, twice the size of Nigeria and equal to Russia or Argentina. South Africa was the third largest beneficiary of AGOA in 2005. Its AGOA exports grew strongly in 2003 and 2004 but fell 17 percent in 2005 due to declines in vehicle, iron/steel and clothing exports. Over 600 U.S. firms have a presence in South Africa with 85 percent using the country as a regional or continental center. South Africa's stable government, sound fiscal and monetary policy management and, by African standards, its large market are the primary attractions for U.S. businesses. South Africa has, however, failed to attract a proportionate share of foreign direct investment since 1994. Reasons include: crime, uncertainty about Black Economic Empowerment policies, labor regulations, HIV/AIDS, and the slow process of privatization. The U.S. is the second largest foreign direct investor in South Africa (\$4.9 billion at year-end 2004).

¶15. (SBU) Following six rounds of negotiations over three years, the U.S. and the Southern African Customs Union (SACU: South Africa, Botswana, Lesotho, Namibia, and Swaziland) agreed in April that they could not conclude negotiations on a free trade agreement (FTA) by their target date of December ¶2006. Negotiators subsequently agreed to deepen the bilateral relationship through a Trade and Investment Cooperation Agreement. The U.S. and SACU may meet later this year to develop the specifics of the agreement.

HIV/AIDS: A CRISIS OF EPIC PROPORTIONS

¶16. (U) South Africa has the second largest number of HIV infections in the world. HIV/AIDS is the country's leading cause of death. Five to six million South Africans are HIV-positive, including 2.9 million women. In 2005, an estimated 800,000 more citizens became infected and over 300,000 died from AIDS. AIDS-related deaths will create millions of orphans and generate additional social and economic disruption. The number of AIDS-related deaths and AIDS orphans is expected to climb by 2010 to 5.2 million and

1.5 million respectively. South African public health facilities suffer from an acute shortage of skilled personnel and laboratory and clinical infrastructure. Considerable investment in human resources and infrastructure is necessary to expand the national antiretroviral treatment program.

¶17. (SBU) It is estimated that approximately 200,000 of the five to six million HIV-positive South Africans are receiving antiretroviral (ARV) treatment. At the end of 2003 the SAG prepared and endorsed an operational plan to treat AIDS using ARVs in public facilities. Implementation of the plan has been slow in all provinces except Gauteng and Western Cape. It is likely that ARV drugs will not be widely available through government programs until late 2006 or 2007. South Africa has been a major recipient of Global Fund resources with major grants awarded to the Western Cape Health Department and a public-private consortium in KZN. Both provide some treatment funding.

¶18. (SBU) The President's Emergency Plan for AIDS Relief (PEPFAR) is beginning its third year of implementation working with public and private sector prevention, treatment, and care programs. To date, the U.S. has provided almost \$239 million through PEPFAR to support HIV/AIDS programs in South Africa, making it the largest recipient of Emergency Plan resources. The FY 2006 PEPFAR budget in South Africa is \$221 million. After three years of funding, the Emergency Plan supports nearly 75,000 people in ARV treatment through programs in all provinces. In addition, the South African military has expanded prevention programs and publicly collaborates with the U.S. military and NIH on ARV-based AIDS treatment research. The Cabinet has endorsed a comprehensive public sector HIV/AIDS treatment plan.

¶19. (U) South Africa has the strongest research and training capacity of any country in the region, making it an important partner in the fight against HIV/AIDS. USG agencies (including USAID, DHHS, DOD, and the Peace Corps) have worked with national and provincial health departments, the military, universities and NGOs to strengthen primary health care, prevention, disease surveillance and research. President Bush and President Mbeki confirmed last July a mutual commitment to expand HIV/AIDS collaboration, particularly through the Emergency Plan. The mission has prepared, in coordination with the government, a five-year strategic plan focused on treatment, prevention, palliative care, and the provision of care for orphans and other vulnerable children.

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